



## Commonwealth of Kentucky Public Protection Cabinet

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**FOR IMMEDIATE RELEASE**

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### **Avoid Falling for a Pyramid Scheme** ***Department of Financial Institutions Advises Consumers of Red Flags***

**FRANKFORT, Ky. – (Feb. 4, 2013)** – For some con artists, certain scams never go out of style. Unfortunately for consumers, pyramid and Ponzi schemes continue to occur, warns the Department of Financial Institutions (DFI).

Fortunately, these scams can be detected by learning to spot the warning signs. The savvy consumer can avoid a bad deal – and reporting suspicious or unusual offers can help prevent others from falling victim.

The Ponzi scheme involves a ploy where earlier investors are paid with funds given by subsequent investors. Often in this scam, the supposed underlying investment is bogus. The con artist may pay out some money to the longer-term investors as “returns,” but it is often simply some of the money from new investors – the rest of the money goes to the Ponzi scheme leader rather than to any investment.

A pyramid scheme works in a similar way, except that it relies on recruitment. New recruits pay the person who recruited them, and they in turn must share the proceeds with those at the top of the pyramid structure.

“Both of these scams rely on word-of-mouth advertising. Because those who participate earlier appear to have profited, more people continue to join,” said DFI Securities Division Director Shonita Bossier. “But when no real investment is made, phantom returns to investors are unsustainable. As always, when something sounds too good to be true it probably is.”

The following are a few ways to protect against Ponzi and pyramid schemes:

- **Beware of the promise of unrealistic returns.** Any legitimate investment involves risk. “Guarantees” and promises that sound “too good to be true” should be considered a red flag.
- **Diversify – everything.** Consider diversifying not only your assets but also your money managers, accounts and financial institutions. Spreading your money around will limit your exposure to the financial problems of any one institution.
- **Don’t rely on reputation or word of mouth alone – understand your investment.** Con artists are experts at building networks of trust, making investors think they are getting an “inside” track on a hot investment.
- **Verify the investment details.** Ask questions about the investments and the sellers, and get clear and direct answers before you invest. If you don’t understand an investment, don’t invest.
- **Check if the company’s financial statements are audited.** Audited financial statements have been reviewed for accuracy relative to the company following generally accepted accounting principles.
- **Conduct a background check.** Check with DFI to determine if the individuals and firms selling the investment are properly registered. If the promoter claims to be exempt, follow up with DFI to confirm the claim. You also can check the promoter’s complaint history when you call DFI at 800-223-2579.
- **Report fraud.** If you’re a victim of a Ponzi or pyramid scheme or you suspect fraud, contact DFI. It may help prevent others from being victimized by the same scam.

DFI, <http://kfi.ky.gov>, is an agency in the Public Protection Cabinet. For more than 100 years it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI’s mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.